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FLATTENING ORGANIZATIONS: PRACTICES AND STANDARDS

By

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DIGEST

In his letter requesting that the California Research Bureau research public and private sector management standards, Senator Mike Thompson notes that, "In the past decade, the private sector has made substantial efforts at so called 'downsizing' or 'rightsizing' their organizational structure." This trend, which requires decentralized control and decision-making structures, has clear implications for public organizations. Government agencies face increasing challenges due to uncertain resources and a public skeptical of their ability to deliver high quality and efficient services. Improving operational capabilities through reengineering work processes could prove to be cost-effective.

This report examines public and private organizational structures, including management/rank and file ratios (span of control), the factors that underlie optimum standards, incentives that foster enhanced performance, and the success or failure of recent efforts to restructure operations. Vice President Gore's National Performance Review, a number of state governments, and various local jurisdictions are experimenting with reengineering public organizations in order to obtain improved efficiency and services. Many of these efforts include "flattening" the organization by reducing the number of management layers and decreasing the number of managers relative to rank and file.

Management and work structures are tools by which organizations accomplish internal and external goals. However, the complex and unclear missions of many public agencies, and conflicting mandates and controls, complicate management responsibilities and inhibit reform efforts. As James Q. Wilson notes, public bureaucracies are fundamentally different from private organizations: "Public management...is a world of settled institutions designed to allow imperfect people to use flawed procedures to cope with insoluble problems."

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¹ James Q. Wilson, *Bureaucracy, What Government Agencies Do and Why They Do It*, Harper Collins Publishers, 1989, page 375.

INTRODUCTION--A Brief Discussion of Modern Management Theory

According to Webster's Dictionary, to "manage" is to train, cause to do, control, manipulate, handle, direct, conduct, administer, or contrive. Traditional management theory emphasizes the rational decisionmaking functions of the manager: to formulate plans and decisions, structure rewards and motivations, and achieve common objectives within available resources. The model is hierarchical, with information, authority and delegation flowing downward. This structure functions fairly effectively when work is routine and repetitive in nature, as in early assembly lines.

However the tasks required of modern government² and corporations have changed dramatically. In addition, technological advances have greatly expanded the manner in which those tasks can, and should be carried out. Managers no longer control information, but rely on a growing body of specialists with unique and essential knowledge and techniques. Project teams and temporary work structures respond to rapidly changing demands and conditions.

Complex modern organizations must govern themselves internally in order to accomplish their central mission. They create rewards and sanctions for their employees, depending in part on the skill level and autonomy required to accomplish tasks, and also on a broader view of how to best motivate the desired human behavior. Managers are responsible for ensuring that individual and group behavior conforms to the demands of the enterprise. Managers generally fulfill the following functions:³

- Planning (decision making and rule making);
- Organizing (writing job descriptions and authority specifications);
- Direction (issuing instructions or orders); and
- Control (examining results, making new decisions for corrective action).

Private Corporations

U.S. businesses are experimenting with a variety of organizational responses to the competitive challenges of the global economy and rapidly changing consumer tastes. A survey of the literature indicates that successful businesses are embracing a variety of innovative organizational structures, including: decentralization, empowered line workers, self-managed work teams, quality circles, semi-independent business units, total quality management (TQM), extensive outsourcing, virtual corporations, radical "delayering"

² For example, James Q. Wilson points out that until the mid 1960s, the "...national government did relatively simple tasks affecting the lives of relatively few people...(Furthermore) the government's direct dealings with the private sector took place largely through contracts, regulations and subsidies sought by and given to producer interests...Washington was not held responsible for the problems of crime, drug abuse, schooling or the environment..." "Reinventing Public Administration, The 1994 John Gaus Lecture," *PS: Political Science & Politics*, December 1994, page 669.

³ This discussion borrows heavily from David R. Hampton, Charles E. Summer and Ross A. Webber, *Organizational Behavior and the Practice of Management*, Scott, Foresman and Company, 1968, pages 22-23.

(getting rid of several layers of middle management), reengineered work processes, and the introduction of work cells or work clusters. There is no simple cookie cutter solution; one model does not fit all. Nor do the businesses that adopt some or all of these devices necessarily become more efficient or effective.

There is a sense of urgency as U.S. corporations restructure to meet the competitive demands of global marketplace. In general, business leaders are moving in three directions as they reorganize the structure of their companies:

- Decentralizing internal operations to empower individual workers to do more;
- Leveraging external resources (for example, outsourcing and long term supplier contracts) and focusing internal activities on core competencies; and
- Reengineering and/or downsizing their organizations.⁴

Modern management theory stresses that employees should be offered sufficient incentives to achieve organizational goals. This becomes especially important as rapidly changing markets and customer preferences require employees to exercise specialized creativity and judgment: the "best corporations began to address this motivational problem with efforts at team building, employee empowerment, customer service and total quality management."⁵

Government Agencies

Some government agencies are modeled on early corporate structures in which work was organized into an assembly line of tasks. Each person on the line specialized in one narrowly defined part of the job and relayed it to the next person when the task was completed. The process was designed to increase predictability and uniformity of results, which are still key bureaucratic goals.

Adding more "experts," or units of production, is a common strategy by which government organizations attempt to keep pace with growing services demands. Since no one individual produces a completed service, an agency must coordinate all the pieces into an integrated product or service. This process requires rules and specifications. A hierarchy of authority, or bureaucratic management structure, applies those rules.

The costs of bureaucratic structures are enormous. Some experts suggest that as much as half of the cost of running an agency is spent on integrating the various specialized skills. Equally problematic, bureaucracies sometimes focus on the rules so much that they lose sight of the citizens for whom they are providing the service.⁶

Arguably, the task of managing a government agency is more complex than that of managing a private bureaucracy, such as McDonalds. Business managers concentrate on the "bottom line," with a clearly defined mission of maximizing profits. In contrast,

⁴ Ian Morrison, Future Tense; The Business Realities of the Next Ten Year, 1994.

⁵ Wilson, page 670.

⁶ M. J Richter, "Reengineering Government," Governing. July 1996.

government managers tend to focus more on constraints than outputs⁷ for the following reasons:

- The goals of government agencies are frequently vague and conflicting;
- Processes are constrained by numerous outside controls (finance, personnel, procurement);
- Revenues and production elements (such as staff and equipment) are externally determined (by legislatures, courts, interest groups); and
- Agencies can not retain the added value or "profit" of their efforts.

As a result, public agencies have more managers than private organizations performing similar tasks: "More constraints require more managers to observe and enforce them."

Key Concepts and Standards

Public and private organizations that restructure for productivity improvements share some key elements. First, the changes take place in response to competition for resources or profits. Second, work is restructured so that fewer workers are needed to do the job. According to Tom Peters⁹, today's successful managers define the corporate vision and allow workers considerable latitude in how to fulfill that mission. The result is a less rigid centralized control system, leaner middle management and worker empowerment. The desired end result is improved performance, profitability and future growth.

Organizational Structure: This concept "refers to the formal and informal patterns of relationships by which an institution organizes work and distributes power." Typically governmental organizational structure is described as rigid, hierarchical, and segmented, with diluted individual responsibility

Some public and private organizations are reviewing their work structures and collapsing or "flattening" the traditional hierarchy. The National Association of State Budget Officers report, *Workforce Policies: State Activity and Innovations*, indicates that:

• At least 18 states have some kind of program underway to eliminate management layers and thereby decentralize and speed up decision-making.

⁹ See *In Search of Excellence* (with Robert Waterman) and *Thriving on Chaos*.

⁷ James Q. Wilson, Bureaucracy, What Government Agencies Do and Why They Do It, page 115.

⁸ Wilson, page 133.

¹⁰ National Performance Review, "Transforming Organizational Structure." [http://www.npr.gov/cgibin/print-hit-bold...brary/reports/tosexe.html/span+of+control]. 2/05/97.

- Thirteen states allow carry-over of general revenue funds from one fiscal year to another to create incentives for efficiencies. Fourteen states have instituted this practice for other funds.
- Twenty-seven states have established performance outcome measures for state programs. Some have eliminated line-item budgets with performance based budgeting.
- Many states have privatized some services. Others have established competitive bidding processes for the delivery of services in which government agencies must bid against private sector counterparts.¹¹

Reengineering: Reengineering involves a thorough reexamination of business processes to achieve measurable improvements in areas such as cost, quality, service and speed. Since the early 1980s, both private and public organizations have employed reengineering and process review techniques to systematically analyze and streamline their business processes by focusing on core competencies (what a company does better than anyone else). The goal is to discard and "reinvent" old practices and achieve dramatic improvements. A J.P. Morgan investment bank analysis found that companies' that focused on their core competencies outperformed the market by 11 percent; in contrast diversified firms underperformed by about 4 percent.

The emphasis on core competencies has led to expanded "outsourcing," in which companies contract out functions such as security, janitorial, and maintenance. *The Economist* reports that "Nike designs and sells sport shoes without stitching a thread itself." Outsourcing helps explain why reengineering often leads to corporate announcements of large layoffs, yet the total number of jobs in the U.S. economy is growing: "Big companies have not so much been destroying jobs as handing them over to other people, often with a contract attached." ¹² This process may have reached a plateau, as many companies are hiring again: IBM added 21,000 employees last year and General Motors added 11.000. ¹³

Process Review: The review and overhaul of key processes are the most important components of reengineering. Basically, a process review is a detailed study of any repetitive series of activities that produces a measurable output. In government, some common processes include licensing and permit issuance, personnel, contract processing, budgeting, monitoring and auditing, and inspecting.

An effective process review crosses artificial departmental boundaries to identify improvements and solutions. Ideally, task forces or teams of employees from every

¹¹ National Association of State Budget Officers, "Workforce Policies: State Activity and Innovations." March 1995. pgs. 106-110.

¹² For example, from 1987 to 1995, IBM reduced its work force from 406,000 employees to 202,000; General Motors had 800,00 employees in 1979 and 450,000 in the early 1990s. *The Economist*, "Making Companies Efficient," December 21, 1996, page 98.

¹³ The Economist, "Making Companies Efficient," December 21, 1996, page 99.

critical phase of the work process conduct the study. Process reviews allow for improvements in what an organization does and in how those tasks are performed.

Flattening the Organization: Organizations seeking to restructure and streamline operations generally make reduction or elimination of management positions a prominent part of their plan. A common strategy involves "flattening the organization" by reducing management layers. The goal is to reduce the number of approvals needed for employee action, allowing front-line workers to exercise more control over results and thereby improve customer service. Control functions, such as purchasing and finance, are often pushed down into operational units. Management reductions generally target "middle managers"--supervisory employees in the organizational hierarchy between the chief executive and front-line supervisors. This does not always result in layoffs: former managers may be moved into line positions, such as team leaders.

Layers of Management: A management layer consists of one or more supervisors of the same level or rank in a hierarchy, beginning with first level supervisory staff up to and including the chief executive officer. The appropriate number of management layers varies depending on the size of the organization and the number of functions performed. Larger agencies are likely to have relatively more management layers than smaller agencies. Even experts disagree on the appropriate number, although they do agree that it should be commensurate with an organization's size. Peter Drucker recommends a maximum of seven layers. Tom Peters recommends no more than five layers, noting that the Catholic Church oversees 800 million members with only five layers of management.¹⁴

Span of Control: Span of control refers to the number of employees or subordinates that report directly to a supervisor or manager. This figure generally is rendered as a ratio. A section with one supervisor and 12 subordinates, for instance, would have a span of control of 1:12. A *Wall Street Journal* study found that the current average span of corporate control in 1994 was 1:11 for service companies and 1:9 for all business sectors combined. Standards vary tremendously. Small companies with few employees have a very narrow span of control. In contrast, some organizations exceed 100 employees to one supervisor. "Others, like General Motor's Saturn, have abolished management positions as we traditionally know them." 16

California's average span of control ratio is 6 employees to every one supervisor. The range is from 1:1 (various boards and commissions) to 1:23 (California Conservation Corps). (For a detailed breakout, please refer to Tables 10-13 on pages 30-35.)

¹⁴ Thomas J. Peters, *Thriving on Chaos*. Alfred A. Knopf, 1987.

¹⁵ Wall Street Journal, "Critical Slot: Restructuring Alters Middle-Manager Role But Leaves it Robust." September 25, 1995. Pg. A-1.

¹⁶ National Performance Review, "Transforming Organizational Structures." [http://www.npr.gov/cgibin/print-hit-bold...brary/reports/tosexe.html/span+of+control]. 2/05/97.

| Table 1 California State Government Span of Control February 1996 Data | | | | | |
|--|-------------------------|-----------------------|--|--|--|
| Number of Employees Ratio Managers to Rank & File | | | | | |
| Managers | 4,060 | | | | |
| Supervisors | 23,490 | | | | |
| Rank and File | 168,248 | | | | |
| Total 195,798 1 to 6.1 ^a | | | | | |
| a. 168,248 divided by (4,060 plus 23,490) equals 6.109. | | | | | |
| ✓ State Controller data, filled position | ns only. Source: Legisl | ative Analyst Office. | | | |

The federal government's span of control ratio in 1993 was 1:7; the National Performance Review's (NPR) goal is to double it to 1:15 by 1999. President Clinton's Executive Order 12862 (1993) orders departments to reduce their supervisor to worker ratio and specifies general standards which agencies should use as a basis for reengineering efforts (see Table 2). Multi-year performance agreements between the President and agency directors serve as incentives and guidelines. (See page 19 for a detailed discussion.)

Table 2 Federal "Setting Customer Service Standards"

- Identify customers who are, or should be, served by the agency.
- Survey customers to determine the kind and quality of services they want and their level of satisfaction with existing services.
- Post service standards and measure results against them.
- Benchmark customer service standards against the best in business.
- Survey front-line employees on barriers to, and ideas for, matching the best businesses.
- Provide customers with choices in the sources of service and the means of delivery.
- Make information, services, and complaint systems easily accessible.
- Provide a means to address customer complaints.

Source: Executive Order 12862

The National Performance Review proposed eliminating 252,000 positions in federal management control categories such as personnel, budgets and procurement. Congress increased the reductions to 272,900. These proposed cuts are projected to generate savings of \$40 billion over a five-year period. As an incentive, Congress authorized cash "buyouts" of up to \$25,000 for each worker who volunteered to quit or retire early. The buyouts were authorized from March 1994 to March 1995. Approximately 32,700 workers opted for the buyout. ¹⁷

¹⁷ Defense Department, Office of Management and Budget. http://.washingtonpost.com.

Critics of the National Performance Review contend that it should focus on the key questions of *what* government ought to do and then examine *how* to do it, instead of focusing only on how government should work.¹⁸ The emphasis on the "number of employees that can be eliminated or the dollars saved, …misses the real issues and may even further hamper government's ability to perform well.¹⁹

Texas currently has a span of control ratio of 1:9. The Texas Performance Review Division of the State Comptroller has recommended a ratio of 1:11 to the Legislature. This ratio is based on a survey of private service sector companies, which found an average of 1:11 (rounded). Iowa is making progress towards its legislatively-mandated goal of 1:14. (See pages 23-25 for a more detailed discussion of Iowa and Texas.)

| Table 3 Comparative Span of Control | | | | | | | | |
|--------------------------------------|--|----------------------------------|--|---------------------|--|--|--|--|
| | Supervisor to Factors Used to Incentives to Success or Worker Ratio Develop Standards Implement Ratios Failure | | | | | | | |
| Private Sector (Service Sector) | Service Sector Average: 1:11 | Industry average | Competition | Mixed | | | | |
| National Performance Review | 1993: 1:7 Goal: 1:15 | Double the 1993 ratio by 1999 | Executive Order Performance Agreements | Some progress | | | | |
| Iowa | Initial: 1:7 Current: 1:10 Goal: 1:14 | Double initial ratio | Required by legislation | Some (avg. 1:10) | | | | |
| Texas | Current: 1:9 Goal: 1:11 | Private sector average ratio | Comptroller recommendation | Being Considered | | | | |
| California | Current: 1:6 h Bureau, California State Li | N/A | N/A | N/A | | | | |

Businesses with 100 or more employees must file yearly reports with the Equal Employment Opportunity Commission (EEOC). The *Wall Street Journal* analyzed the employment records of companies filing reports with the EEOC from 1982 through 1994 (the 2.1 million reports covered approximately 38 percent of the workforce). The *Journal* concluded that the span of control for reporting companies changed very little from 1989 to 1994 (during a recession with major corporate layoffs). Table 4 summarizes the study's findings relating to the span of control by industry.

¹⁸ Kettl, Donald F., *Reinventing Government? Appraising the National Performance Review*. August 19, 1994, pg. 62.

¹⁹ Ibid.

| Table 4 | | | | | | | |
|--|----------|-------------|--|--|--|--|--|
| Span of Control By Industry | | | | | | | |
| Industry Span of Control Span of Control 1989 (percentage) 1994 (percentage) | | | | | | | |
| Services | 9.35 | 10.7^{20} | | | | | |
| Agriculture, Forestry, & | | | | | | | |
| Fishing | 10.22 | 11.48 | | | | | |
| Transportation, | | | | | | | |
| Communications, Electric, | | | | | | | |
| Gas | 7.15 | 8.02 | | | | | |
| Retail Trade | 10.24 | 11.35 | | | | | |
| Manufacturing | 8.76 | 9.23 | | | | | |
| Finance, Insurance & Real | | | | | | | |
| Estate | 5.4 | 5.7 | | | | | |
| Wholesale Trade | 7.17 | 7.38 | | | | | |
| Mining | 7.00 | 7.18 | | | | | |
| Construction | 8.82 | 9.02 | | | | | |
| Source: Wall Street Journal, Edward P. | Foldessy | | | | | | |

The Optimum Supervisor to Employee Ratio: There is no "ideal" ratio of line employees to managers that can be applied across all organizations, divisions, or even across functions. Numerous factors affect the optimum ratio, including:

- The mission of the organization;
- The type of service or product produced;
- The complexity and sensitivity of the work;
- The management style of top executives;
- The proximity of employees to each other and to their manager;
- Legal requirements; and
- The consequences of error.

Experts disagree about the maximum limit under which one person can reasonably be expected to oversee the work of subordinates. Tom Peters, a management expert, contends that "well-performing organizations should operate with 25 to 75 workers for every one supervisor."²¹

21 National Performance Review, "Transforming Organizational Structure." [http://www.npr.gov/cgi-

bin/print-hit-bold...brary/reports/tosexe.html/span+of+control]. 2/05/97.

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²⁰ In this report this number is rounded to 1:11.

Performance tends to suffer when an organization has too many management layers or too narrow a span of control. Communication slows down as work moves through chains of command or across organizational lines. On the other hand, insufficient supervision can lead to morale problems, burnout, costly errors and scandals. Increasing the span of control without eliminating management layers can actually decrease efficiency.

Government agencies are generally organized around broad missions and clientele groups. Considerable effort goes into coordinating different administrative functions--such as budgets, personnel, contracts, and procurement--that cut across divisions. Analysts contend that performance improvements result from reorganizing processes that span across functions: "...process improvements often produce ten times the benefits of functional changes." For example, in a New York Department of Veterans Affairs claims processing center, workers specialized in specific tasks. Coordinating the component pieces in the process resulted in long delays. A NPR pilot project ("reinvention lab") reorganized the staff into teams of specialists with responsibility to fully process a claim. Processing time dropped from years to weeks or months. ²⁴

Most organizations grow "thicker" and more rule-bound over time. Often a convoluted organizational hierarchy is the result of past realignments to adapt to an agency's changing mission and new responsibilities, or to incorporate new technologies. There is often a tendency for management to preserve the status quo during reorganizations by adding to the existing structure. This patchwork approach can add new management layers in areas where responsibilities might have been consolidated or eliminated.

Reducing the span of control is complicated in government by the restrictive nature of civil service rules, which limit a department's ability to move and reclassify people according to need. For example, when a program ends or is reduced, its specialized job classifications may not fit a new mission. Departments may end up with individuals in job classifications they no longer need. Further, layoffs can be time consuming as individuals are "bumped" by seniority into a series of positions. Employees with needed new skills often have less seniority. On the other hand, private companies have found that offering everyone a retirement incentive or "golden handshake" results in the most highly skilled and desirable employees leaving first.

²² Donald Kettl and John DiIulio J., *Cutting Government?* The Brookings Institution, May 22, 1995, pg. 37.

²³ "According to the NPR's electronic network, a Reinvention Lab is a place that cuts through 'red tape,' exceeds customer expectations, and unleashes innovations for improvement from its employees. Depending on the priorities of an agency, a lab may focus upon programs, processes, administrative structures, or a combination of all three..." footnote from: Donald Kettl, and J. DiIulio Jr., pg. 63.

²⁴ Kettl, Donald and DiIulio J. Jr., pages 35 & 36.

CHANGING BUSINESS STRUCTURES

The Forces Driving Change

Businesses can no longer be successful by pursuing a strategy of producing uniform goods over an extended period of time for a mass market. Consumer tastes are increasingly fragmented into customized "niches," requiring flexible and agile companies and work processes. Global competition means that companies in other countries can rapidly copy products, requiring constant innovation in order to maintain market share. A well trained, adaptable and creative workforce is essential. The older model of a large, inflexible, hierarchical corporate structure and a control culture is inappropriate, and even detrimental, to success in this environment.

According to management experts, most "excellent" companies have relatively simple organizational forms, requiring fewer management layers to make things happen. U.S. companies responding to Japanese competition in the 1970s and 80s observed the competitive advantage of lean management systems. For example, in 1982, there were five management levels between the chairman and the line-supervisor at Toyota, whereas Ford had more than fifteen. Excessive middle management can prevent the spread of new ideas and inhibit successful "hands-on" management practices.

In 1982, Thomas J. Peters and Robert Waterman published *In Search of Excellence: Lessons from America's Best-Run Companies*. The book's basic message is that companies can regain their competitive edge by paying more attention to people, customers and employees, and by staying with the business they know best. Most of the "excellent" companies reviewed have lean staffing structures, fewer administrators, and more operators. This requires pushing responsibility for organizational operations down to the level where the work is accomplished. For example, Johnson and Johnson delegates the responsibility for marketing, distribution, and research to each of its consumer product divisions. In contrast, the authors note that big companies often respond to complexity by designing complicated systems and control structures, and then hiring more staff to keep track of them.

Peters and Waterman list eight attributes of corporate excellence:

- 1. *Bias for Action*: A preference for doing something, rather than sending an idea through endless cycles of analyses and committee reports.
- 2. Staying Close to the Customer: Learning customer preferences and catering to them.
- 3. Autonomy and Entrepreneurship: Breaking the corporation into small companies and encouraging them to think independently and competitively.

²⁵ Thomas J. Peters and Robert Waterman, *In Search of Excellence: Lessons from America's Best-Run Companies*, Harper Business, 1982, pg. 313.

²⁶ Ibid. pages 306-317.

- 4. *Productivity Through People*. Creating in all employees the awareness that their best efforts are essential and that they will share in the rewards of the company's success.
- 5. *Hands-on*, *Value-Driven*: Insisting that executives keep in touch with the firm's essential business and promote a strong corporate culture.
- 6. Stick to the Knitting: Remaining with the businesses the company knows best.
- 7. Simple Form, Lean Staff: Few administrative layers, few people at the upper levels.
- 8. *Simultaneous Loose-Tight Properties*: Fostering a climate in which there is dedication to the central values of the company, combined with tolerance for all employees who accept those values.

These attributes do not guarantee long term success. Three years after the publication of *In Search of Excellence*, *Business Week* surveyed the 43 "excellent" companies identified by the authors and concluded that at least 14 of them were no longer appropriate role models. They had not responded to changing competitive environments and had misapplied or forgotten key organizational innovations. Businesses must build continuous learning into their structures or risk market failure.

Successful corporations are constantly surveying, testing, and tinkering with their products and services, keeping one goal in mind: to give the customer what the customer wants. Only by satisfying customers can a company produce growing profits decade after decade.²⁷ This constant tinkering often leads to reengineering and can result in enhanced productivity. Management experts note that: "....in today's global economy, organizations need to be flexible to adjust quickly to changing market conditions, lean enough to beat any competitor's price, innovative enough to keep products and services technologically fresh, and dedicated enough to deliver maximum quality and customer service."²⁸

Examples of Corporate Reengineering

IBM

IBM experienced an operating loss of \$8 billion in 1993. As a consequence, the company's management initiated a major reengineering project. The principal goals were to remain productive with fewer people and to better meet employee and customer needs. The company's efforts resulted in large workforce reductions. IBM communicated its reengineering goals to all levels in the organization and offered employees training to

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²⁷ Richard C. Whiteley, *The Customer-Driven Company*, Addison-Wesley, 1991.

²⁸ Michael Hammer, *Reengineering the Corporation*, Harper Business, 1993.

support the process. According to the company, once employees knew how they would fit in the new organization, they were more likely to help in implementing change.²⁹

AT&T Corporation

Beginning in 1992, AT & T's Atlanta Service Center began to redesign jobs and workflow around self-directed work teams. Each team in the plant was organized around a specific product or group of products. The introduction of the team-based system resulted in a flatter organizational structure, eliminating first level supervisors. Team leaders and coordinators assumed tasks once carried out by the supervisors. The flatter organizational structure allowed the plant to implement just-in-time production systems. (In 1993, AT & T had revenues of \$67 billion and net income of \$3.9 billion, with 300,000 employees worldwide. The company has since broken up into 3 smaller companies with unique core competencies in order to improve competitiveness.)

Aetna

Aetna's share of the insurance market dropped in the late 1980s. This prompted the company to survey its customer base and convene focus groups to identify the cause. The overwhelming finding suggested that Aetna was not price competitive. In response, management initiated reengineering efforts in 1990, focusing on cost reduction. The number of employees was reduced from 50,000 to 38,000 by the end of 1994. Reengineering resulted in a 25 percent cost reduction and enhanced customer service.³⁰

Motorola

Motorola is one of the world's leading providers of wireless communications and electronic equipment, systems, components and services. The company employed over 134,000 people in 1994. In order to improve quality, Motorola instituted work teams and increased employee involvement in organizational decisions. Most of the company's production facilities are organized around approximately 5,000 work teams, through which individuals are empowered to schedule their own work, make purchasing decisions, utilize statistical process controls to improve quality, and shut down the production line in the case of quality defects. Motorola estimates that in 1994 alone the improvements and suggestions of the various teams resulted in over \$2 billion of documented savings.

Motorola's operations are highly decentralized. Different business operations are structured as sectors or groups, depending on their size. Within each of the business

²⁹ General Accounting Office, *Reengineering Organizations: Results of a GAO Symposium*, Washington, D.C., 1994, pgs. 9-14.

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³⁰ General Accounting Office, *Reengineering Organizations: Results of a GAO Symposium*, Washington, D.C., 1994, pgs. 12-14.

sectors and groups, there has been a concerted effort to use work teams to reduce the levels of management hierarchy. This has resulted in a flatter organizational structure.³¹

Government Accounting Office Symposium

In 1994, the General Accounting Office (GAO) sponsored a symposium on corporate reengineering to identify factors essential to success. GAO invited executives from five companies (IBM, General Motors Corporation, Aetna Life and Casualty Company, DuPont and Bell Atlantic Corporation) to testify on their companies' successful reengineering activities. Five principles emerged as critical elements:

- 1. Top management must be supportive of and engaged in reengineering efforts in order to remove barriers and drive success.
- 2. An organization's culture must be receptive to reengineering goals and principles.
- 3. Major improvements and savings are realized by focusing on the business from a process rather than a functional perspective.
- 4. Processes should be selected for reengineering based on a clear notion of customer needs, anticipated benefits, and potential for success.
- 5. Process owners should manage reengineering projects with teams that are crossfunctional, maintain a proper scope, focus on customer metrics, and enforce implementation timelines.³²

A Contrary View

A Wall Street Journal study of data filed annually with the Equal Employment Opportunity Commission shows that the managerial ranks of Fortune 500 and other companies reporting to the Commission have remained almost unchanged since 1990. The study found that companies reporting to the Commission have an average of 11.17 managers per 100 employees today, slightly less than the 11.83 per 100 reported in 1990.³³ "Corporate giants including Aetna Life & Casualty Co., American Express Co., Johnson & Johnson and Procter & Gamble Co., all of which have had layoffs since 1993, have more managers per 100 employees today than they did in 1990."³⁴

There are several possible interpretations of the *Wall Street Journal* analysis. One is that most layoffs have been of line workers. Another is that managers have merely been moved around in the organizational structure becoming, for example, team leaders. Commentators have also noted the possible link between increased stock prices,

³¹ National Performance Review, "Motorola," [http://www.fed.org/uscompanies/labor/a_m/Motorola.html] 12/16/96.

³² General Accounting Office, *Reengineering Organizations: Results of a GAO Symposium*, December, 1994, p.7.

³³ See Table 4, page 9, for a detailed breakout. Source: *Wall Street Journal*, "Critical Slot: Restructuring Alters Middle-Manager Role But Leaves it Robust," September 25, 1995, P. A-1.

³⁴ Wall Street Journal, "Critical Slot: Restructuring Alters Middle-Manager Role But Leaves it Robust," September 25, 1995, P. A-2.

management stock option profits and company downsizing announcements, which frequently trigger increases in stock prices.

"The data don't support the kind of revolutionary change reported in the media," says Massachusetts Institute of Technology economist Paul Osterman, author of a coming book about managerial careers in the new economy. "Restructuring may have caused a reduction in middle managers at companies, but it's often increased their percentage of the total work force." For example, in 1993 Xerox Corporation, eliminated 9,500 positions and reduced 18 pay levels to three broad bands. The Company reported a 17 percent decline in the number of managers from 1993 to 1995. However, the Wall Street Journal notes that Xerox's document processing unit reported 3,800 employees "in a decision-making mode," almost the same number of employees it considered in the "management category" before restructuring. 36

³⁵ For a provocative discussion, see *Fat and Mean: The Corporate Squeeze of Working Americans and The Myth of Managerial 'Downsizing*,' by David Gordon.

³⁶ Wall Street Journal, "Critical Slot: Restructuring Alters Middle-Manager Role But Leaves it Robust." September 25, 1995. Pg. A-3.

CHANGING GOVERNMENTAL STRUCTURES

The Forces Influencing Change

Polls suggest that Americans want a government that works better, costs less and produces better services. In 1993, survey respondents were asked whether they preferred a candidate who would "cut the federal bureaucracy by 20 percent" or one who would "change the way government does things such as cut bureaucracy, make government more efficient, and give ordinary people better service and more choices." Respondents overwhelmingly chose the latter option. Other surveys have found that a majority of Americans want more effective government and believe this can be accomplished through better management. The National Performance Review, led by Vice President Gore, contends that the federal government must create "a new customer service contract with the American people."

Budgetary forces are also driving change, as programs and agencies compete for scarce dollars. Congress is pushing responsibility for financing and delivering many services down to state and local governments in order to reduce the federal budget deficit. In California, the public does not appear to support diverting more resources into government programs through taxes unless the goal—such as school construction—is clearly stated and the funds are earmarked.

Flexibility and innovation are key attributes of high performance organizations. Yet controls and constraints generally characterize government operations. Ted Gaebler and David Osborne note that the "...impulse to control is embedded in virtually every set of rules by which government operates: the budget system, the personnel system, the procurement system, even the accounting system..." They conclude that the cumulative effect is gridlock. Similarly, The National Commission on the State and Local Public Service concluded that "...to effect *real* change, the structures and systems that underpin state and local governments must change. Bureaucracies need to be de-layered so that the front line is in touch with upper-level management." The Commission noted that the path to high performance government is to place "...leaders in charge of lean, responsive agencies,...to hire and nurture knowledgeable, motivated employees, and give them the freedom to innovate in accomplishing the agencies' missions..."

³⁷ Vice President Al Gore. *Common Sense Government: Works Better and Costs Less.* National Performance Review, [http://www.npr.gov/library/nprrpt/annrpt/comsen95/2666.html]. ³⁸ Ibid.

³⁹ National Performance Review, Creating a Government That Works Better and Costs Less: Report of the National Performance Review. 1993. page 1.

⁴⁰ Cristy Jensen, "State Civil Service Reform," *California Policy Choices*. Vol. 8, University of Southern California, Supra Note. p. 112.

⁴¹ The National Commission on the State and Local Public Service, *Hard Truths/Tough Choices: An Agenda for State and Local Reform.* 1993. p. 11.
⁴² Ibid., p. 9.

Clarifying Mission

The fundamental question underlying any serious reform effort is "What is it that government *ought* to do, and what is it that it *can* do?" In 1995, President Clinton, stated in a speech that: "We know we have to go beyond cutting, even beyond restructuring, to completely reevaluate what the federal government is doing. Are we doing it well? Should we be doing it at all? Should someone else be doing it? Are we being as innovative and flexible as the most creative private organizations in the country?" ⁴⁴

Observers note that government program goals are frequently complex and often vague. Further, the activities to reach them may be conflicting or controversial: for example, will abstinence or sex education best reduce teen pregnancy? An agency may have insufficient power or authority to achieve an ambitious goal, such as improving child welfare in abusive families. In addition, the increasing diversity and policy expertise of constituent groups tend to make government organizations more vulnerable to outside criticism. Innovations are often easier for political activists to design than for program managers to carry out. These constraints create a culture of risk aversion, which is shared by political leaders and program managers. The result is that government managers focus on process over goal attainment "...the greatest risk is not that a program will perform poorly, but that a scandal will erupt."⁴⁵.

The range of tasks that government undertakes is enormous and touches almost every aspect of modern life. Government agencies often have to contend with unclear goals and diverse responsibilities, leading to fragmented programs. New laws may require them to undertake new activities without deleting older missions, specifying priorities or providing new resources.

How should government be managed? Clearly no one model will work. In fact, many private sector techniques are inappropriate given the constraints under which government agencies operate. For example, California state government has a rigid civil service classification system (4,500 job classifications) which constrains hiring decisions. Further, state agencies have limited incentives to be efficient or to undertake innovative activities with their resources because the budget system discourages such efforts. James Q. Wilson suggests that, "To do better, we have to deregulate the government."

The pressure for improved performance and quality in service delivery may require fundamental and qualitative changes in government organizations and work methods. However, change in public agencies has traditionally occurred in a piecemeal and

⁴³ James Q. Wilson, "Reinventing Public Administration," page 672.

⁴⁴ President Bill Clinton, *Remarks*, Reinventing Government event at FCC Auction Office, Washington, D.C., March 27, 1995.

⁴⁵ National Performance Review, September 1993.

⁴⁶ James Q. Wilson, page 369.

incremental manner. In contrast, "continuous improvement" requires that work processes be altered, reordered, and improved.⁴⁷

It is not clear that business can serve as a model for government reform: "Most red tape reflects the ability of some group—some part of the voting public—to get its interests protected." ⁴⁸ Protections include privileged access to public resources and guarantees of fair procedures. Many other actors, including Congress, interest groups, and the courts, define, influence and constrain agency missions. One cannot separate policy from administration.

Examples of Government Restructuring

Like businesses, government organizations are embracing (and discarding) a series of management trends: Total Quality Management (TQM), managing for results, benchmarking, reengineering, value engineering, rightsizing, strategic planning, downsizing, self-directed teams, quality circles, "flattening," privatizing, competitive contracting, virtual organizations and systems management. These efforts have been implemented with varying degrees of commitment, sophistication and success in different jurisdictions. In some instances, employees have been subjected to a succession of short term management fads, leading to a degree of cynicism about such efforts.⁴⁹

A recent trend is for an agency to develop a "strategic plan." A strategic plan identifies an agency's customers and core mission(s) and then designs management strategies to serve them, as appropriate. 50 Oregon, Texas, Minnesota and Utah are implementing resultsbased budgeting projects that link to statewide strategic planning initiatives and include outcome-based performance measures.

Performance Indicators

Various states have developed performance measures as part of their budget process. A GAO report examined the 5 states that are considered "leaders": Connecticut, Hawaii, Iowa, Louisiana, and North Carolina. The report found that performance measures have had little impact on legislative budget deliberations so far.

The City of Sunnyvale is well known for the performance measures which it has developed to better manage city government. Managers receive a bonus of up to 10 percent of salary when an agency exceeds performance objectives. Between 1985-1990, the cost per unit of service decreased by 20 percent, factoring out inflation. A 1990 survey showed the city used 35-45 percent fewer people to deliver most services than cities of comparable size.⁵¹

⁴⁷ Kiel, L. Douglas, Managing Chaos and Complexity in Government, 1994.

⁴⁸ James Q. Wilson, page 670.

⁴⁹ Jonathan Walters, "Fad Mad," *Governing*, September 1996.

⁵¹ California Issues Forums, "Politics in California: How Can We Make The System Work?" 1993.

Oregon has established more than 250 benchmarks or goals for the state. The benchmarks are based on the premise that Oregon will have the best chance of achieving an attractive future if Oregonians agree on where they want to be in 2010 and then join together to accomplish those goals. Oregon's benchmarks include measurable performance indicators that are used by state government to set program and budget priorities and to obtain interagency cooperation.

The Secretary of Labor's Task Force on Excellence in State and Local Government.

The task force examined labor-management cooperation in state and local governments beginning in the 1970s and found that reforms undertaken in response to specific, mutually determined service needs were the most effective. Careful definition of project goals and specific implementation tasks were essential.

The task force also found that successful service partnerships included fewer supervisory layers and relied on teams. The teams were delegated key decisions previously reserved to supervisors. Some of the most important changes occurred in personnel systems, particularly in classification systems, which were a major barrier to service improvement and cooperative relationships. In almost every instance of success, personnel systems were simplified, resulting in fewer and broader classifications. The task force noted that a common misuse of classification systems involves promoting strong line performers to supervisory positions in order to reward them with increased recognition and pay.⁵²

National Performance Review

The National Performance Review (NPR), chaired by Vice President Al Gore, is charged with conducting a systematic review of the federal government's operations. Its initial report called for the creation of a government that "works better and costs less" by using business as a model, putting customers first, and empowering employees by decentralizing decision making and improving accountability and training. Notably, the report did not recommend the elimination of programs or policies (with minor exceptions). 53

NPR recommended a reduction of 252,000 federal government employees (out of 2.18 million), or about 12 percent, by the end of 1999. It also recommended a reduction in the "span of control" by 50 percent, from 1:7 to 1:15, but did not base the recommendations on clearly articulated standards. Key goals are to save money, improve working conditions for front-line federal workers, and expedite the flow of information between top administrators and front-line workers.⁵⁴

A 1996 General Accounting Office (GAO) review found that some progress has been made in reducing the number of federal management layers. While several agencies have

⁵² U. S. Department of Labor, Working Together For Public Service, May 1996.

⁵³ National Performance Review, September 7, 1993.

⁵⁴ Vice President Al Gore, Common Sense Government: Works Better and Costs Less, Third Report of the National Performance Review, 1994.

met NPR goals, others contend that the goals are not appropriate given their missions. Some agencies have eliminated middle management in name only. For example, 19 federal agencies renamed supervisors "team leaders." GAO's findings of agency progress are summarized below (see Table 5 and 6 for detailed breakdown):

- Goal: Reduce the number of supervisors by half.
- Result: 11 of the 27 largest agencies have achieved reductions of 25 percent or better.
- Goal: Reduce the number of headquarters staff by half.
- Result: 8 of the 27 largest agencies have made some progress.
- Goal: Reduce the number of management control positions by half.
- Result: 3 of the 7 largest agencies have met this goal.
- Goal: Double the ratio of employees to supervisors.
- Result: 3 of the 27 largest agencies have met this goal.

The following Tables (5 and 6) provide a detailed analysis of federal department span of control ratios and proposed and actual management reductions. There is clearly a great deal of variation. NPR staff state that each department originally determined its own goals. "Unacceptable" goals are now being reviewed by NPR.

⁵⁵ Stephen Barr, "Downsizing's Blurry Bottom Line: Government is Shrinking, But is it More Efficient?" *The Washington Post*, September 20, 1996.

Table 5 Ratio of Federal Supervisors to Other Employees FYs 1993, 1996, and 1999

| Agency | 1993 | 1996 (est) | 1999 (planned) |
|-------------------------------------|------|------------|----------------|
| | | | |
| Agency for International | 1:10 | 1:8 | 1:8 |
| Development | | | |
| Agriculture | 1:8 | 1:10 | 1:11 |
| Commerce | 1:7 | 1:8 | 1:12 |
| Defense(total) | 1:7 | 1:8 | 1:14 |
| Air Force | 1:7 | 1:8 | 1:14 |
| Army | 1:7 | 1:8 | 1:14 |
| Navy | 1:8 | 1:9 | 1:16 |
| Defense Agencies | 1:7 | 1:8 | 1:14 |
| Education | 1:6 | 1:8 | 1:10 |
| Energy | 1:5 | 1:11 | 1:15 |
| Environmental Protection | 1:5 | 1:11 | 1:11 |
| Agency | | | |
| Federal Emergency | 1:6 | 1:13 | 1:15 |
| Management Agency | | | |
| General Services | 1.5 | 1.5 | 1.9 |
| Administration | | | |
| Health and Human Services | 1:6 | 1:8 | 1:11 |
| Housing and Urban | 1:6 | 1:8 | 1:12 |
| Development | | | |
| Interior | 1:6 | 1:9 | 1:14 |
| Justice | 1:6 | 1:6 | 1:8 |
| Labor | 1:5 | 1:5 | 1:9 |
| National Aeronautics and | 1:5 | 1:8 | 1:11 |
| Space Administration | | | |
| National Science | 1:5 | 1:8 | 1:9 |
| Foundation | | | |
| Office of Personnel | 1:8 | 1:12 | 1:11 |
| Management | | | |
| Small Business | 1:4 | 1:5 | 1:7 |
| Administration | | | |
| Social Security | 1:7 | 1:10 | 1:15 |
| Administration | | | |
| State | 1:11 | 1:10 | 1:12 |
| Transportation | 1:6 | 1:7 | 1:11 |
| Treasury | 1:8 | 1:9 | 1:10 |
| United States Information | 1:5 | 1:6 | 1:6 |
| Agency | | | |
| Veterans Affairs | 1:8 | 1:11 | 1:15 |
| Source: National Performance Review | | | |

Table 6

Federal Streamlining Fiscal Years (Proposed Changes from 1993-1999; Actual Change in 1996)

| Agency | Supervisors | | Headquarters Staff | | Management Control Positions | |
|-----------------------------------|-------------|------------|--------------------|------------|------------------------------|-----------|
| | Proposed | Actual | Proposed | Actual | Proposed | Actual |
| Agency for | -23 | -3 | -23 | -14 | -6 | +5 |
| International | | | | | | |
| Development | | | | | | |
| Agriculture | -36 | -21 | -26 | -15 | -17 | -11 |
| Commerce | -45 | -18 | -26 | -20 | -19 | -16 |
| Defense(total) | -58 | -16 | -15 | -10 | -22 | -8 |
| Air Force | -55 | -13 | -10 | -8 | -22 | -8 |
| Army | -55 | -14 | -19 | -17 | -22 | -8 |
| Navy | -62 | -19 | -17 | -7 | -22 | -8 |
| Defense Agencies | -60 | -19 | -10 | -3 | -22 | -8 |
| Education | -45 | -24 | -16 | -12 | -23 | -11 |
| Energy | -67 | -53 | -43 | -27 | -21 | -16 |
| Environmental | -48 | -38 | -28 | -10 | -8 | +4 |
| Protection Agency | | | | | | |
| Federal Emergency | -20 | -20 | -20 | -22 | -20 | +17 |
| Management Agency | | | | | | |
| General Services | -58 | -28 | -25 | -21 | -24 | -18 |
| Administration | | | | | | |
| Health and Human | -51 | -29 | -37 | -15 | -20 | -11 |
| Services | | | | | | |
| Housing and Urban | -49 | -37 | -44 | -36 | -24 | -17 |
| Development | | | | | | |
| Interior | -59 | -29 | -49 | -27 | -35 | -32 |
| Justice | -7 | +4 | -7 | -5 | +1 | +9 |
| Labor | -42 | -19 | -53 | -25 | -21 | -17 |
| National Aeronautics | -49 | 0 | -49 | -34 | -32 | -16 |
| and Space | | | | | | |
| Administration | | | | | | |
| National Science | -37 | -24 | -22 | -18 | +2 | +8 |
| Foundation | | | | | | |
| Office of Personnel | -53 | -53 | -67 | -65 | -42 | -41 |
| Management | 5.5 | 20 | 25 | 20 | 20 | 20 |
| Small Business | -55 | -28 | -35 | -28 | -39 | -30 |
| Administration | £1 | 25 | 50 | 22 | 26 | 1.4 |
| Social Security Administration | -51 | -25 | -50 | -23 | -26 | -14 |
| State | -21 | -8 | -18 | -7 | -4 | -1 |
| | -50 | -8 -22 | -18 | -7 | -4 -50 | -1 -17 |
| Transportation | -50 -24 | -22 -10 | -50 | | -50 -1 | · · |
| Treasury United States | -24 | -10 -22 | -13 -19 | +4 -15 | -1 -27 | +4 -17 |
| Information Agency | -34 | -22 | -19 | -13 | -21 | -1/ |
| Veterans Affairs | -43 | -28 | -30 | -19 | -9 | -6 |
| Average | -43 -49 | -28 | -30 | -19 -14 | -21 | -0 -9 |
| Average | -49 | -20 | -23 | -14 | -21 | -9 |

Note: OMB Circular No. A-11 (1995), sec. 15.4, pp. 47-48, contains the definitions of the job series Source: National Performance Review

Iowa

Iowa state government began downsizing in 1991, in response to the recession. Two thousand positions were eliminated during the year, a reduction of 9 percent. Layoffs were primarily composed of rank and file unionized employees, raising the concern of organized labor. The following legislative session, union leaders requested that any further cuts occur in management.

In 1992, the State of Iowa passed House File 2454, entitled "Span of Control and Layers of Management." The legislation (see appendix B for a copy) called for a reduction in "the layers of management in the executive branch agencies by at least 50 percent by July 1, 1994." Departments were also charged with increasing the number of employees per supervisor in the aggregate by up to 50 percent by July 1, 1993. This target goal was not tied to any specific diagnosis of an excess management problem in Iowa. ⁵⁶ The Governor's Committee on Government Spending Reform noted in its 1992 report that "...changing the organizational structure itself is a way to increase the focus on customers and to increase productivity by making sure that decisions are made at the lowest possible level in the organization."

As of 1996, Iowa state employment had decreased by 14 percent. The "span of control," or ratio of rank and file to supervisor/management, increased from nearly 1:7 to its current ratio of 1:10. The average number of management layers was reduced from to 3.5 in 1991 to 2.7 by July 1994, a 21 percent reduction.

| Table 7 | | | | | | |
|--|---------------------------------------|-------|------|--|--|--|
| | Iowa State Employment Span of Control | | | | | |
| YEAR NUMBER OF SPAN OF CONTROL EMPLOYEES SUPERVISORS | | | | | | |
| 1991 | 22,000 | 3,300 | 1:7 | | | |
| 1996 | 18,960 | 1,190 | 1:10 | | | |
| Source: Iowa Legisla | tive Fiscal Bureau, August 1994. | | | | | |

⁵⁶ Paul Light, Presentation to the Comptroller of Public Accounts, March 18, 1994.

| | Table 8 Iowa: Changes In Span Of Control | | | | | |
|----------------------------------|--|---------------------|--------------|--------------|-----------------------|-------------|
| | July 1991 | July 1992 | July 1993 | July 1994 | Difference 1991-94 | % Change |
| Number of Employees | 20,924 | 19,386 | 18,743 | 18,759 | -2,165 | -10.3% |
| Number of Supervisors | 2,830 | 2,580 | 2,405 | 2,025 | -805 | -28.4% |
| Non- supervisory Employees | 18,094 | 16,806 | 16,338 | 16,734 | -1,360 | -7.5% |
| Span of Control | 1:7.4 | 1:7.5 | 1:7.8 | 1:9.3 | 1: 1.9 ⁵⁷ | 25.7% |
| Source: Iowa Lo | egislative Fiscal E | Bureau, August 1994 | ١. | | | |

Iowa is also embarking on other government reform initiatives:

- *Performance Measures:* Benchmarks and policy goals will become the basis for establishing results-oriented performance measures for individual programs.
- Return on Investment: Iowa proposes to develop a return on investment model to show taxpayers what they are getting for their tax dollar.
- Budgeting For Results: This effort will link the appropriation of resources to an expenditure's expected results, relying on benchmarks (policy goals) and results-oriented performance measures to establish priorities.
- *Contracting Out:* The goal is to reduce the number of state employees.
- Classification System: Iowa is revamping its state job classification system. The goal is to consolidate and re-title positions, giving them broader responsibilities. A "parallel career path" is under development to encourage and compensate for progress in technical and professional skills (instead of promoting into management). There has been a 35 percent reduction in the number of job classifications since 1986.

| Table 9 Change in Number of Iowa Job Classifications | | | | |
|---|------------|--|--|--|
| July 1986 | 1,301 | | | |
| July 1991 | 1,026 | | | |
| July 1993 | 942 | | | |
| July 1994 | 889 | | | |
| July 1996 | <u>849</u> | | | |
| Total Reduction 452 (35 %) | | | | |
| Source: Iowa Legislative Fiscal Bureau, August 1994. | | | | |

 $^{^{\}rm 57}$ An increase of 1.5 employees for every manager.

Texas

Over the years, Texas state agencies created many self-contained programs in order to implement new requirements assigned by the Legislature. The result was a patchwork of activities carried out in relative isolation, with a tendency toward redundancy and inefficiency. In 1991, Texas began to develop a vision, mission statements and goals as a basis for state government reorganization. Legislation required each state department to annually develop a five-year strategic plan.

Outcome Based Budgets: To move to results-based budgeting, the 1994-95 biennial budget eliminated line item appropriations and provided funding based on strategies and outcomes derived from the goals and objectives enumerated in agency strategic plans. Texas is also developing a statewide full-cost accounting system so that agencies can measure productivity, efficiency, and unit costs.

Requirement to Limit the Growth of State Government Gets Mixed Results: In 1995, the Texas Legislature enacted a provision to limit employment growth in state agencies. Section 153 of the 1996-97 Appropriations Act states that ..."at least 50 percent of the appropriation reductions be applied by the affected agencies toward reductions in salary and personnel expenses." The Texas Performance Review found that most agencies complied with the budget reductions in the first months of fiscal year 1996, but "...most made their cuts without much effort to streamline their structures, improve processes, or reduce excessive management." ⁵⁹

The State Comptroller recently released the latest in a series of reports: *Disturbing the Peace: the Challenge of Change in Texas Government*. Among other findings, the report recommends that legislation be enacted⁶⁰ establishing a goal for state agencies and institutions of higher education to increase management-to-staff ratios from 1: 8.4 to 1:11. Texas estimates that capping the ratio will achieve estimated savings of \$235 million over a two year budget cycle.⁶¹

⁵⁹ Ibid.

⁵⁸ Ibid.

⁶⁰ See appendix B for a copy of two bills introduced. Others bills specifying the span of control ratio will also be introduced this session.

⁶¹ Telephone conversation with staff to the Texas Performance Review Division, Texas State Comptroller.

CALIFORNIA

In 1934, California voters approved Proposition 7 to require merit review in state hiring processes. Over the years a complex rule-laden system has evolved. California's civil service classification system consists of approximately 4,500 job classifications, each with a distinct job title and duty description. The state has approximately 200,000 employees, according to the Department of Personnel Administration. There is nearly one job classification for every 40 employees. Only two other states have more job classifications.

The state utilizes a variety of very broad criteria to determine the appropriate supervisor to employee ratio. For example, factors that affect the allocation of Staff Services Manager I, II, and III positions include: "...the extent of supervisory and management responsibility reporting relationship, complexity of assigned work, and impact of decisions on statewide programs." These factors leave considerable room for interpretation. The broad descriptions effectively serve a wide range of departmental responsibilities and promote mobility. Each department determines the appropriate mix and span of control, with approval from the Department of Personnel Administration, the State Personnel Board, the Department of Finance and the Legislature.

The Staff Services Manager I position is one of the most common supervisory positions in California state government. The position can fulfill a wide range of functions, including technical and nonsupervisory responsibilities:

- 1. In a small to moderate sized department, directs a fully developed Staff Services function such as personnel, fiscal, or management analysis.
- 2. In a medium size department, directs a developing Staff Services function.
- 3. Supervises a small group of professional or technical analysts through the Associate Analyst level with responsibility for a major subsection of a Staff Services function.
- 4. Functions as a recognized authority in an area of extreme sensitivity, with ongoing coordinating responsibility over other analysts in a sensitive area of a department's operation, usually on a task force or project basis.
- 5. Directs a variety of Staff Services functions in a very small department as Chief of Administrative Services.
- 6. Functions as a nonsupervisory staff specialist in a difficult and sensitive program development, policy, or coordination position. ⁶³

A department's size is a key variable affecting the number of its senior positions. Departments competing for workers with a high level of expertise can only do so if their structures are big enough to compete. This may encourage departments to expand their responsibilities in order to justify more resources.

⁶³ Ibid. pg. 2.

⁶² California State Personnel Board, *Class Specification for Staff Services Manager*. July 26, 1973. pg.1.

Mid-Manager Reduction of 1994

In 1994, California state agencies had 28,314 manager/supervisor positions on their combined payroll, according to the Department of Personnel Administration (DPA). The Legislature requested a reduction in the number of management/supervisor positions. DPA targeted 1,841 manager/supervisor positions for reduction by June 1995, for a total of 26,473 manager/supervisor positions (see appendix B for a copy of DPA's midmanagement reduction plan). However, State Controller data as of February 1996, reveal 27,550 manager/supervisor positions on the state payroll, an increase of 1,421⁶⁴ positions in a 7 month period.

Based on information provided by DPA and on a review of some departments, it appears that the manager/supervisor reduction was achieved in many cases by reclassifying positions. Fifty-two percent of the positions identified for reduction were instead reallocated to a different reclassification (964 of 1,841 positions). Most of the reclassifications were to positions comparable in pay. For example, a common reclassification was from Office Services Supervisor to Office Technician.

At a May 21, 1997, annual training seminar for managers and supervisors, Mr. David Tirepelle, Director of the Department of Personnel Administration stated that ... "The Department of Personnel Administration is considering a proposal that would tie manager/supervisor pay to the number of employees supervised (or span of control). 65

Performance Audits

The goal of a performance audit is to identify where government can provide more effective and efficient service delivery. In California, "no state agency has responsibility for conducting performance audits to improve efficiency and effectiveness of state agencies."66 Most audits conducted are of a fiscal nature and typically look at one program or function within a department. Rarely do audits examine the organizational structures of an entire department and compare them with outcomes. Several departments have commissioned outside reviews, however. The following discussion summarizes pertinent findings from two audit reports.

Office of the State Controller

In January of 1995, State Controller Kathleen Connell authorized an independent audit of the State Controllers Office (SCO). The audit was conducted by KPMG Peat Marwick LLP examined each aspect of the operation of the SCO.

⁶⁴ 1,071 filled and 350 vacant positions.

⁶⁵ Annual Training Seminar for Managers and Supervisors. "The Changing Face of State Management: How to Survive and Thrive, Part II." May 21, 1997.

⁶⁶ KPMG Peat Marwick LLP. Office of the State Controller: Performance Audit. May 1995. pg. 5.

The audit found that "the organization structure has become fragmented and over managed," and recommended reorganizing the SCO into a leaner structure with fewer levels of management. The auditors opined that "the flattening of the SCO organization structure will create a more efficient, economical, and responsive agency." ⁶⁸

In particular, the audit found that the Controller's office was top heavy with management. For example, the ratio of employees to supervisors was 3.8 to 1 in the Audits Division. The auditors concluded that "There are too many supervisors for the number of employees. At this time, 58 supervisors in the SCO have no more than two people reporting to them. Some supervisors have no one to supervise." ⁶⁹ Figure 1 illustrates the span of control and levels of management in the Audits Division. According to the *Sacramento Bee*, the State Controller has since instituted a reorganization, resulting in a ratio of 8 to 1 in the Audits Division.

| Figure I State Controllers Office (Audits Division) Span of Control and Levels of Management | | | | | | |
|--|-------------------------|----------------------|--|--|--|--|
| Division Section | Average Span of Control | Levels of Management | | | | |
| Division Chief, Assistant Division Chiefs | 3.00 | 2 | | | | |
| Special Investigations (reports | | 2 | | | | |
| to Deputy State Controller) | 5.00 | | | | | |
| Health and Finance Accounts | 3.56 | 5 | | | | |
| EDP Audits | 4.89 | 6 | | | | |
| Administration and Quality Control | 3.89 | 4 | | | | |
| State Agency and Lottery Audits | 3.60 | 5 | | | | |
| Special Audits | 4.75 | 5 | | | | |
| Construction Audits | 2.29 | 5 | | | | |
| Education Single Audits | 2.63 | 5 | | | | |
| Southern California Audit | 4.00 | 5 | | | | |
| Bureau | Bureau | | | | | |
| Total Division | 3.79 | 6 | | | | |
| Source: Office of the State Controller: Performance Audit (May 1995) | | | | | | |

⁶⁷ KPMG Peat Marwick LLP. Office of the State Controller: Performance Audit. May 1995, pg.2.

⁶⁸ Ibid. pg.6.

⁶⁹ Ibid. pg.3.

⁷⁰ The Sacramento Bee. *State Controller Draws Criticism: Connell Defends Auditing Practices*. May 18, 1997.

Department of Transportation

A similar evaluation of the Department of Transportation conducted by SRI International found that "Caltrans' data show that managers and supervisors appear to be increasing in numbers more quickly than rank-and-file employees, and that the ratio of managers and supervisors is high by private-sector standards.⁷¹

Span of Control

Charts 10-13 detail the range of span of control among California state departments by number of employees: departments in Table 10 have between 1-99 employees; those in Table 11 have between 100-999 employees; in Table 12 between 1,000-3,999 employees; and more than 4,000 employees in Table 13. The smallest departments and boards generally have the lowest span of control ratios, suggesting that their management positions may reflect a high level of program responsibility but not supervision. There is sufficient variation among departments of all sizes to conclude that no single standard exists. As noted above, California state government's average span of control is 1:6.

⁷¹ SRI International. *Evaluation of the Organizational Structure and Management Practices of the California Department of Transportation*. Volume: Summary and Recommendations. Final Report, February 1994. pg. I-25.

Table 10 Total Managers and Supervisors to Rank and File Ratios by Department Size (1-99 Employees)

(as of February 29, 1996)

| Departments | Managers | Supervisors | Rank & File | Total Employee | Ratio |
|--|----------|-------------|----------------|-------------------|--------|
| California Education Facilities Authority | | | 2 | 2 | |
| Board of Pilot Commissioners | 1 | | 1 | 2 | 1:1.00 |
| CA Industrial Development Finance Advisory | 1 | | 1 | 2 | 1:1.00 |
| Comm. | | | | | |
| CA Occupational Info. Coord. Comm. | 1 | | 1 | 2 | 1:1.00 |
| California School Finance Authority | 1 | | 1 | 2 | 1:1.00 |
| Delta Protection Commission | 1 | | 1 | 2 | 1:1.00 |
| Governor's Advisory Commission Child Care | 1 | | 2 | 3 | 1:2.00 |
| Savings and Loan | 1 | 0 | 2 | 3 | 1:2.00 |
| State Council on Vocational Education | 1 | 1 | 2 | 4 | 1:1.00 |
| California Debt Limit Allocation | 1 | | 3 | 4 | 1:3.00 |
| Commission | | | | | |
| Native American Heritage Commission | 1 | | 3 | 4 | 1:3.00 |
| California Law Revision Commission | 2 | | 3 | 5 | 1:1.50 |
| Information Technology | 1 | 1 | 3 | 5 | 1:1.50 |
| Alcoholic Beverage Center Appeals Board | 1 | | 4 | 5 | 1:4.00 |
| Santa Monica Mountains Conservancy | 2 | 1 | 3 | 6 | 1:1.00 |
| Commission on State Gov't Org. and Econ. | 2 | | 4 | 6 | 1:2.00 |
| Commission on Status of Women | 1 | 1 | 4 | 6 | 1:2.00 |
| Commission on Aging | 1 | | 6 | 7 | 1:6.00 |
| California Debt advisory Commission | 2 | 1 | 7 | 10 | 1:2.33 |
| Seismic Safety Commission | 1 | 1 | 8 | 10 | 1:4.00 |
| Board of Chiropractic Examiners | 1 | | 9 | 10 | 1:9.00 |
| California Pollution Control Finance | 2 | 2 | 7 | 11 | 1:1.75 |
| Authority | | | | | |
| State and Consumer Services Agency | 6 | 1 | 5 | 12 | 1:0.71 |
| Commission on State Mandates | 2 | 1 | 9 | 12 | 1:3.00 |
| California Health Facilities Authority | 2 | | 10 | 12 | 1:5.00 |
| Youth and Adult Correction Agency | 8 | 1 | 4 | 13 | 1:0.44 |
| Wildlife Conservation Board | 1 | 2 | 10 | 13 | 1:3.33 |
| African American Museum | | 3 | 11 | 14 | 1:3.67 |
| State Council on Devl. Disabilities | 3 | | 11 | 14 | 1:3.67 |
| Major Risk Medical Insurance Board | 3 | 1 | 11 | 15 | 1:2.75 |
| California Mortgage Bond, Tax Credit | 1 | 2 | 12 | 15 | 1:4.00 |
| California Transportation Commission | 5 | 3 | 8 | 16 | 1:1.00 |

Table 10 (cont'd)

Total Managers and Supervisors to Rank and File Ratios

by Department Size (1-99 Employees)
(as of February 29, 1996)

| Departments | Managers | Supervisors | Rank & File | Total Employee | Ratio |
|--|----------|-------------|----------------|-------------------|---------|
| Colorado River Board of California | | 2 | 11 | 17 | 1:1.75 |
| California Maritime Academy | | 6 | 11 | 17 | 1:1.83 |
| Statutory Officers | 18 | | | 18 | |
| Health and Welfare Agency | 13 | | 9 | 22 | 1:0.69 |
| California Medical Assistance Commission | 12 | | 10 | 22 | 1:0.83 |
| Office of Administrative Law | 3 | 3 | 18 | 24 | 1:3.00 |
| Commission on Judicial Performance | 1 | 24 | | 25 | |
| California Tahoe Conservancy | 3 | 1 | 22 | 26 | 1:5.50 |
| Office of Secretary Environmental Protection | 5 | | 22 | 27 | 1:4.40 |
| Office of Traffic Safety | 1 | 4 | 23 | 28 | 1:4.60 |
| Board of Osteopathic Examiners | 1 | 25 | 3 | 29 | 1:0.12 |
| SF Bay Conservation and Development Comm. | 3 | 3 | 23 | 29 | 1:3.83 |
| Emergency Medical Services authority | 2 | 5 | 28 | 35 | 1:4.00 |
| Office of Real Estate Appraisers | 4 | 3 | 30 | 37 | 1:4.29 |
| California Arts Council | 2 | 2 | 33 | 37 | 1:8.25 |
| Postsecondary Education Commission | 4 | 1 | 33 | 38 | 1:6.60 |
| Youthful Offender Parole Board | 17 | 1 | 23 | 41 | 1:1.28 |
| Area Board on Developmental Disabilities | | 15 | 30 | 45 | 1:2.00 |
| State Coastal Conservancy | 2 | 8 | 39 | 45 | 1:3.90 |
| Agricultural Labor Relations Board | 7 | 2 | 36 | 45 | 1:4.00 |
| Public Employment Relations Board | 8 | 1 | 38 | 47 | 1:4.22 |
| Board of Corrections | 5 | 22 | 21 | 48 | 1:0.78 |
| Fair Political Practices Commission | 6 | 4 | 49 | 59 | 1:4.90 |
| Boating and Waterways | 3 | 8 | 51 | 62 | 1:4.64 |
| California Horse Racing Board | 2 | 9 | 52 | 63 | 1:4.73 |
| Coun. Priv. Postsecondary and Voc. Education | 3 | 4 | 71 | 78 | 1:10.14 |
| State Public Defender | 3 | 8 | 75 | 86 | 1:6.82 |
| Source: LAO Report, May 1996 | | | | | |

Table 11 Total Managers and Supervisors to Rank and File Ratios by Department Size (100-999 Employees) (as of February 29, 1996)

| Departments | Managers | Supervisors | Rank & File | Total Emp. | Ratio |
|--|----------|-------------|----------------|---------------|---------|
| Museum of Science and Industry | 8 | 14 | 80 | 102 | 1:3.64 |
| Office of Criminal Justice Planning | 8 | 15 | 85 | 108 | 1:3.70 |
| Supreme Court | 13 | 101 | | 114 | |
| Peace Officers Standards and Training | 15 | 41 | 62 | 118 | 1:1.11 |
| Board of Prison Terms | 15 | 11 | 94 | 120 | 1:3.62 |
| Bureau of State Audits | 11 | 23 | 87 | 121 | 1:2.56 |
| State Fire Marshal's Office | 10 | 16 | 99 | 125 | 1:3.81 |
| Community Services/Development | 3 | 15 | 108 | 126 | 1:6.00 |
| Environmental Health Hazard Assessment | 5 | 15 | 114 | 134 | 1:5.67 |
| California Coastal Commission | 8 | 22 | 111 | 141 | 1:3.70 |
| Commission on Teacher Credentialing | 5 | 10 | 126 | 141 | 1:8.40 |
| State Personnel Board | 9 | 44 | 115 | 168 | 1:2.17 |
| California Housing Finance Agency | 12 | 15 | 148 | 175 | 1:5.48 |
| Board of Governors Community College | 10 | 14 | 156 | 180 | 1:6.50 |
| California State Library | 11 | 23 | 147 | 181 | 1:4.32 |
| State Banking Department | 19 | 12 | 167 | 198 | 1:5.39 |
| State Lands Commission | 16 | 23 | 164 | 203 | 1:4.21 |
| State Treasurer's Office | 11 | 24 | 190 | 225 | 1:5.43 |
| Personnel Administration | 19 | 16 | 210 | 245 | 1:6.00 |
| Judicial Council | 24 | 232 | | 256 | |
| Military | | 14 | 244 | 258 | 1:17.42 |
| Trade and Commerce Agency | 38 | 19 | 205 | 262 | 1:3.60 |
| Fair Employment and Housing | 10 | 20 | 239 | 269 | 1:7.97 |
| Real Estate | 12 | 48 | 231 | 291 | 1:3.85 |
| Department of Alcohol and Drug Programs | 12 | 46 | 260 | 318 | 1:4.29 |
| Board of Control | 5 | 39 | 286 | 330 | 1:6.50 |
| Finance | 36 | 26 | 278 | 340 | 1:4.48 |
| Stephen P. Teale Data Center | 20 | 41 | 289 | 350 | 1:4.74 |
| Office of Statewide Health Planning & Dev. | 17 | 43 | 313 | 373 | 1:5.22 |
| Pesticide Regulation | 11 | 37 | 335 | 383 | 1:6.98 |
| Secretary of State's Office | 13 | 42 | 346 | 401 | 1:6.29 |
| Health and Welfare Agency Data Center | 19 | 41 | 356 | 416 | 1:5.93 |
| California Integrated Waste Management Board | 17 | 57 | 344 | 418 | 1:4.65 |
| Corporations | 20 | 55 | 349 | 424 | 1:4.65 |
| Alcoholic Beverage Control | 9 | 74 | 343 | 426 | 1:4.13 |
| State Teachers' Retirement System | 15 | 58 | 392 | 465 | 1:5.37 |

Table 11 (cont'd)

Total Managers and Supervisors to Rank and File Ratios

by Department Size (100-999 Employees) (as of February 29, 1996)

| Departments | Manager | Supervisors | Rank & | Total | Ratio |
|---|---------|-------------|--------|-------|---------|
| | s | | File | Emp. | |
| Student Aid Commission | 7 | 43 | 415 | 465 | 1:8.30 |
| California Exposition and State Fair | 4 | 27 | 435 | 466 | 1:14.03 |
| State Energy Resources Cons. & Dev. comm. | 45 | 58 | 375 | 478 | 1:3.64 |
| Housing and Community Development | 14 | 74 | 417 | 505 | 1:4.74 |
| Legislative Counsel Bureau | 13 | 48 | 472 | 533 | 1:7.74 |
| Court of Appeal | 15 | 551 | | 566 | |
| Conservation | 17 | 84 | 487 | 588 | 1:4.82 |
| Office of Emergency Services | 14 | 72 | 607 | 693 | 1:7.06 |
| Public Utilities Commission | 52 | 100 | 706 | 858 | 1:4.64 |
| California State Lottery Commission | 30 | 88 | 828 | 946 | 1:7.02 |
| Toxic Substances Control | 27 | 157 | 812 | 996 | 1:4.41 |
| Source: LAO Report, May 1996 | | | | | |

Table 12 Total Managers and Supervisors to Rank and File Ratios by Department Size (1000-3999 Employees) (as of February 29, 1996)

| Departments | Managers | Supervisors | Rank & File | Total Emp. | Ratio |
|-------------------------------------|----------|-------------|----------------|---------------|---------|
| Air Resources Board | 23 | 122 | 862 | 1,007 | 1:5.95 |
| Insurance | 32 | 148 | 840 | 1,020 | 1:4.67 |
| Public Employees' Retirement System | 38 | 28 | 881 | 1,047 | 1:5.31 |
| State Water Resources Control Board | 42 | 188 | 983 | 1,213 | 1:4.27 |
| Veterans Affairs | 25 | 123 | 1,103 | 1,251 | 1:7.45 |
| State Controller's Office | 37 | 221 | 1,050 | 1,308 | 1:4.07 |
| Rehabilitation | 14 | 282 | 1,816 | 2,112 | 1:6.13 |
| California Conservation Corps | 26 | 64 | 2,144 | 2,234 | 1:23.81 |
| Fish and Game | 37 | 279 | 1,938 | 2,254 | 1:6.13 |
| Industrial Relations | 76 | 192 | 2,150 | 2,418 | 1:8.02 |
| Education | 44 | 205 | 2,230 | 2,479 | 1:8.95 |
| Food and Agriculture | 47 | 310 | 2,252 | 2,609 | 1:6.31 |
| Consumer Affairs | 66 | 232 | 2,381 | 2,679 | 1:7.99 |
| Water Resources | 92 | 515 | 2,478 | 3,085 | 1:4.08 |
| Parks and Recreation | 42 | 422 | 3,277 | 3,741 | 1:7.06 |
| Forestry and Fire Protection | 61 | 490 | 3,263 | 3,814 | 1:5.92 |
| General Services | 80 | 466 | 3,319 | 3,865 | 1:6.08 |
| Source: LAO Report, May 1996 | | | | | |

Table 13 Total Managers and Supervisors to Rank and File Ratios by Department Size (4000-and Over Employees) (as of February 29, 1996)

Departments Managers **Supervisors** Rank **Total** Ratio & File Emp. Board of Equalization 78 433 3,559 4,070 1:6.96 Justice 127 353 3,704 4,184 1:7.72 Social Services 69 532 3,596 4,197 1:5.98 Health Services 81 742 4,739 5,562 1:5.76 Youth Authority 82 744 4,824 5,650 1:5.84 Franchise Tax Board 95 542 5,219 5,856 1:8.19 State Compensation Insurance Board 62 837 5,547 6,446 1:6.17 Mental Health 87 527 7,033 6,419 1:10.45 Motor Vehicles 81 1,097 7,546 8,724 1:6.41 California Highway Patrol 353 1,046 7,991 9,390 1:5.71 Developmental Services 553 9,471 1:13.37 106 8,812 Employment Development 1,539 11,004 12,642 1:6.72 Transportation 349 17,779 2,208 15,222 1:5.95 Corrections 677 5,094 33,413 39,184 1:5.79 Source: LAO Report, May 1996

LEGISLATIVE AND ADMINISTRATIVE OPTIONS

While not necessarily recommendations of the author or the California Research Bureau, the following are potential options for action.

I. Require all state agencies to develop a plan to increase the supervisor to rank and file span of control ratio and allow agencies to retain some of the savings.

This option would require state agencies to analyze their organizational structures, and in the process assess where they could restructure for more effective and efficient operations. The requirement could be tied to the strategic planning process already underway in all departments, as ordered by the Governor. The value of this approach is that it acknowledges that the appropriate span of control and the most efficient number of management layers should be analyzed in the context of a thorough understanding of an agency's mission and day-to-day functions. Different missions require different organizational structures.

The following are variations of this option that could be considered:

- Require all state agencies to increase the manager/supervisor to rank and file span of control ratio to 1:9 over a four year period of time.
- Require all state agencies to increase the manager/supervisor to rank and file span of control ratio to 1:9 by the year 2000 and to 1:11 by the year 2002.
- Require the Department of Finance in conjunction with the Department of Personnel Administration and the State Personnel Board, to develop an appropriate standard and timeframe for agencies to increase the manager/supervisor to rank and file span of control ratio.

The Department of Finance could include the above requirements in the strategic planning process required of all state agencies. In addition state agencies could be allowed to retain some of the savings.

As detailed in Tables 10-13 (pages 30-35), there is considerable variation in the span of control among California state boards, commissions and departments: from 1:1 to 1:23. This variation does not appear to be related to functional differentiation (Appendix A). When the span of control is narrow, there are likely opportunities for restructuring that could lead to organizational flattening and improved efficiency.

The Legislature could enhance the effectiveness of this requirement by charging its standing committees to hold oversight hearings examining the departments under their purview. In the hearings, the committees could review departmental strategic plans and discuss the plans' fit with the mission, vision and goals of the organization as

contemplated by the Legislature. In other words, integrate the "how" with the "what' and "why."

II. Enact legislation requiring a state government average ratio of 1:11 (the private service sector industry average).

This ratio is under consideration in Texas. It is considerably higher than the current California average ratio of 1:6. Iowa is pursuing a more aggressive ratio of 1:14, and the federal government's target ratio is 1:15. An improved California state government average ratio could be implemented over a five-year span, as proposed by the National Performance Review.

The State of California has approximately 2,000 positions classified as managers or supervisors that do not supervise. Reclassifying these positions could be a first step.

A review of agency span of control ratios by function (by budget and fiscal review subcommittee jurisdiction) reveals no clear relationship between the span of control ratio and departmental functions (See Appendix A). There is somewhat of a relationship between span of control and the number of employees, with smaller boards and commissions having very small ratios (see Tables 10-13 above). Nevertheless, only one department with more than 4,000 employees meets the 1:11 private service sector ratio, suggesting opportunities for improvement.

III. Examine the state's centralized control structures (budget, procurement and personnel) with the goal of eliminating unnecessary duplication and control and decentralizing management responsibilities to program managers.

Much of the literature analyzing government operations points out the costs and inefficiencies associated with extensive centralized administrative controls and constraints. Managers tend to become constraint and process-directed instead of focused on accomplishing their mission. One could argue that the state's finance, procurement and personnel operations are all management functions. For example, the Department of Personnel Administration and the State Personnel Board (SPB) have overlapping responsibilities. SPB has one of the highest span of control ratios of any state agency: 1:2. Reengineering the state's management functions might be a place to start "reinventing" California state government.

IV. Establish a "reinvention lab" to assist state agencies to restructure and improve work processes.

The National Performance Review has created "reinvention labs" to work with government organizations in order to improve both efficiency and effectiveness. California state government reinvention labs could serve as consultants to departments to assist in reengineering operations. Their responsibilities might include:

- Increasing the supervisor to worker span of control ratio;
- Redesigning middle-management functions;
- Reducing management so that no department would have more than five layers;
- Creating employee teams to improve service;
- Outsourcing functions;
- Investing in technology to reduce layers of management and clerical staff; and
- Allowing departments to keep funds attributable to efficiencies.

The Legislature could authorize the creation of a website on the Internet to disseminate and share government "reinvention" information, similar to the website created by the National Performance Review but customized for California state and local government.

APPENDIX A

SPAN OF CONTROL BY BUDGET AND FISCAL REVIEW SUBCOMMITTEES

Budget and Fiscal Review Subcommittee No. 1 Span of Control Education

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|--|----------|-------------|----------------|-------|---------|
| California Education Facilities | | | 2 | 2 | |
| Authority | | | | | |
| California School Finance Authority | 1 | | 1 | 2 | 1:1.00 |
| State Council on Vocational Education | 1 | 1 | 2 | 4 | 1:1.00 |
| Commission on Teacher Credentialing | 5 | 10 | 126 | 141 | 1:8.40 |
| California State Library | 11 | 23 | 147 | 181 | 1:4.32 |
| Education | 44 | 205 | 2,230 | 2,479 | 1:8.95 |
| Coun. Priv. Postsecondary and Voc. Ed. | 3 | 4 | 71 | 78 | 1:10.14 |
| Student Aid Commission | 7 | 43 | 415 | 465 | 1:8.30 |
| Board of Governors Community College | 10 | 14 | 156 | 180 | 1:6.50 |
| Source: LAO, May 1996 | | | | | |

Budget and Fiscal Review Subcommittee No. 2 Span of Control Judiciary/Justice

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|---------------------------------------|----------|-------------|----------------|-------|--------|
| California Law Revision Commission | 2 | | 3 | 5 | 1:1.50 |
| Statutory Officers | 18 | | | 18 | |
| Office of Administrative Law | 3 | 3 | 18 | 24 | 1:3.00 |
| Commission on Judicial Performance | 1 | 24 | | 25 | |
| State Public Defender | 3 | 8 | 75 | 86 | 1:6.82 |
| Office of Criminal Justice Planning | 8 | 15 | 85 | 108 | 1:3.70 |
| Peace Officers Standards and Training | 15 | 41 | 62 | 118 | 1:1.11 |
| Supreme Court | 13 | 101 | | 114 | |
| Judicial Council | 24 | 232 | | 256 | |
| Court of Appeal | 15 | 551 | | 566 | |
| Justice | 127 | 353 | 3,704 | 4,184 | 1:7.72 |

Budget and Fiscal Review Subcommittee No. 2 Span of Control--Transportation

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|--------------------------------------|----------|-------------|-------------------|--------|--------|
| California Transportation Commission | 5 | 3 | 8 | 16 | 1:1.00 |
| Office of Traffic Safety | 1 | 4 | 23 | 28 | 1:4.60 |
| Motor Vehicles | 81 | 1,097 | 7,546 | 8,724 | 1:6.41 |
| California Highway Patrol | 353 | 1,046 | 7,991 | 9,390 | 1:5.71 |
| Transportation | 349 | 2,208 | 15,222 | 17,779 | 1:5.95 |
| Source: LAO, May 1996 | • | • | | | |

Budget and Fiscal Review Subcommittee No. 2 Span of Control--Resources

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|-------------------------------------|----------|-------------|-------------------|-------|---------|
| Delta Protection Commission | 1 | | 1 | 2 | 1:1.00 |
| Santa Monica Mountains Conservancy | 2 | 1 | 3 | 6 | 1:1.00 |
| Seismic Safety Commission | 1 | 1 | 8 | 10 | 1:4.00 |
| Wildlife Conservation Board | 1 | 2 | 10 | 13 | 1:3.33 |
| Colorado River Board of California | | 2 | 11 | 17 | 1:1.75 |
| Resources Agency | 7 | 1 | 13 | 21 | 1:1.62 |
| California Tahoe Conservancy | 3 | 1 | 22 | 26 | 1:5.50 |
| SF Bay Conservation and Dev. Comm. | 3 | 3 | 23 | 29 | 1:3.83 |
| State Coastal Conservancy | 2 | 8 | 39 | 45 | 1:3.90 |
| California Coastal Commission | 8 | 22 | 111 | 141 | 1:3.70 |
| State Lands Commission | 16 | 23 | 164 | 203 | 1:4.21 |
| State Energy Resources Cons. & Dev. | 45 | 58 | 375 | 478 | 1:3.64 |
| Commission | | | | | |
| Conservation | 17 | 84 | 487 | 588 | 1:4.82 |
| State Water Resources Control Board | 42 | 188 | 983 | 1,213 | 1:4.27 |
| California Conservation Corps | 26 | 64 | 2,144 | 2,234 | 1:23.81 |
| Fish and Game | 37 | 279 | 1,938 | 2,254 | 1:6.13 |
| Water Resources | 92 | 515 | 2,478 | 3,085 | 1:4.08 |
| Parks and Recreation | 42 | 422 | 3,277 | 3,741 | 1:7.06 |
| Forestry and Fire Protection | 61 | 490 | 3,263 | 3,814 | 1:5.92 |
| Source: LAO, May 1996 | 1 | | | | |

Budget and Fiscal Review Subcommittee No. 2 Span of Control Environmental Protection

| Departments | Managers | Supervisors | Rank & | Total | Ratio |
|--|----------|-------------|--------|-------|--------|
| C.I.C. i. D.II.d. C. i. I.E. | 2 | 2 | File | 1.1 | 1.175 |
| California Pollution Control Finance | 2 | 2 | / | 11 | 1:1.75 |
| Authority | | | | | |
| Office of Secretary Environmental | 5 | | 22 | 27 | 1:4.40 |
| Protection | | | | | |
| Environmental Health Hazard Assessment | 5 | 15 | 114 | 134 | 1:5.67 |
| Pesticide Regulation | 11 | 37 | 335 | 383 | 1:6.98 |
| California Integrated Waste Management | 17 | 57 | 344 | 418 | 1:4.65 |
| Board | | | | | |
| Toxic Substances Control | 27 | 157 | 812 | 996 | 1:4.41 |
| Air Resources Board | 23 | 122 | 862 | 1,007 | 1:5.95 |
| Source: LAO, May 1996 | • | | | | |

Budget and Fiscal Review Subcommittee No. 2 Span of Control General Government

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|--------------------------------------|----------|-------------|-------------------|-------|---------|
| Board of Pilot Commissioners | 1 | | 1 | 2 | 1:1.00 |
| Native American Heritage Commission | 1 | | 3 | 4 | 1:3.00 |
| Boating and Waterways | 3 | 8 | 51 | 62 | 1:4.64 |
| California Horse Racing Board | 2 | 9 | 52 | 63 | 1:4.73 |
| State Fire Marshal's Office | 10 | 16 | 99 | 125 | 1:3.81 |
| California Exposition and State Fair | 4 | 27 | 435 | 466 | 1:14.03 |
| Food and Agriculture | 47 | 310 | 2,252 | 2,609 | 1:6.31 |
| Source: LAO, May 1996 | | ı | I . | I | |

Budget and Fiscal Review Subcommittee No. 3 Span of Control Health and Human Services

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|--|----------|-------------|----------------|--------|---------|
| Commission on Aging | 1 | | 6 | 7 | 1:6.00 |
| California Health Facilities Authority | 2 | | 10 | 12 | 1:5.00 |
| State Council on Devl. Disabilities | 3 | | 11 | 14 | 1:3.67 |
| Major Risk Medical Insurance Board | 3 | 1 | 11 | 15 | 1:2.75 |
| Health and Welfare Agency | 13 | | 9 | 22 | 1:0.69 |
| California Medical Assistance Commission | 12 | | 10 | 22 | 1:0.83 |
| Emergency Medical Services authority | 2 | 5 | 28 | 35 | 1:4.00 |
| Area Board on Developmental Disabilities | | 15 | 30 | 45 | 1:2.00 |
| Department of Alcohol and Drug Programs | 12 | 46 | 260 | 318 | 1:4.29 |
| Office of Statewide Health Planning & | 17 | 43 | 313 | 373 | 1:5.22 |
| Dev. | | | | | |
| Health and Welfare Agency Data Center | 19 | 41 | 356 | 416 | 1:5.93 |
| Rehabilitation | 14 | 282 | 1,816 | 2,112 | 1:6.13 |
| Social Services | 69 | 532 | 3,596 | 4,197 | 1:5.98 |
| Health Services | 81 | 742 | 4,739 | 5,562 | 1:5.76 |
| Mental Health | 87 | 527 | 6,419 | 7,033 | 1:10.45 |
| Developmental Services | 106 | 553 | 8,812 | 9,471 | 1:13.37 |
| Employment Development | 99 | 1,539 | 11,004 | 12,642 | 1:6.72 |

Budget and Fiscal Review Subcommittee No. 3
Span of Control
Labor and Veterans' Affairs

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|------------------------------------|----------|-------------|-------------------|-------|--------|
| Agricultural Labor Relations Board | 7 | 2 | 36 | 45 | 1:4.00 |
| Community Services/Development | 3 | 15 | 108 | 126 | 1:6.00 |
| Veterans Affairs | 25 | 123 | 1,103 | 1,251 | 1:7.45 |
| State Compensation Insurance | 62 | 837 | 5,547 | 6,446 | 1:6.17 |
| Industrial Relations | 76 | 192 | 2,150 | 2,418 | 1:8.02 |
| Source: LAO, May 1996 | - 1 | | U | I. | |

Budget and Fiscal Review Subcommittee No. 4 Span of ControlLegislative/Executive

| Departments | Managers | Supervisors | Rank | Total | Ratio |
|--|----------|-------------|--------|-------|--------|
| | | | & File | | |
| CA Industrial Development Finance | 1 | | 1 | 2 | 1:1.00 |
| Advisory Comm. | | | | | |
| Information Technology | 1 | 1 | 3 | 5 | 1:1.50 |
| Commission on State Gov't Org. and Econ. | 2 | | 4 | 6 | 1:2.00 |
| California Debt Advisory Commission | 2 | 1 | 7 | 10 | 1:2.33 |
| State and Consumer Services Agency | 6 | 1 | 5 | 12 | 1:0.71 |
| Business, Transportation, and Housing | 7 | 2 | 10 | 19 | 1:1.11 |
| Agency | | | | | |
| State Treasurer's Office | 11 | 24 | 190 | 225 | 1:5.43 |
| Secretary of State's Office | 13 | 42 | 346 | 401 | 1:6.29 |
| Legislative Counsel Bureau | 13 | 48 | 472 | 533 | 1:7.74 |
| Insurance | 32 | 148 | 840 | 1,020 | 1:4.67 |
| State Controller's Office | 37 | 221 | 1,050 | 1,308 | 1:4.07 |
| Board of Equalization | 78 | 433 | 3,559 | 4,070 | 1:6.96 |
| Source: LAO, May 1996 | | ı | | | |

Budget and Fiscal Review Subcommittee No. 4 Span of Control State and Consumer Services

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|-------------------------------------|----------|-------------|----------------|-------|--------|
| Museum of Science and Industry | 8 | 14 | 80 | 102 | 1:3.64 |
| State Personnel Board | 9 | 44 | 115 | 168 | 1:2.17 |
| Fair Employment and Housing | 10 | 20 | 239 | 269 | 1:7.97 |
| State Teachers' Retirement System | 15 | 58 | 392 | 465 | 1:5.37 |
| Public Employees' Retirement System | 38 | 28 | 881 | 1,047 | 1:5.31 |
| Consumer Affairs | 66 | 232 | 2,381 | 2,679 | 1:7.99 |
| General Services | 80 | 466 | 3,319 | 3,865 | 1:6.08 |
| Franchise Tax Board | 95 | 542 | 5,219 | 5,856 | 1:8.19 |
| Source: LAO, May 1996 | L | <u> </u> | 1 | 1 | I |

Budget and Fiscal Review Subcommittee No. 4 Span of Control Business

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|---|----------|-------------|----------------|-------|--------|
| Alcoholic Beverage Center Appeals Board | 1 | | 4 | 5 | 1:4.00 |
| Office of Real Estate Appraisers | 4 | 3 | 30 | 37 | 1:4.29 |
| Bureau of State Audits | 11 | 23 | 87 | 121 | 1:2.56 |
| California Housing Finance Agency | 12 | 15 | 148 | 175 | 1:5.48 |
| State Banking Department | 19 | 12 | 167 | 198 | 1:5.39 |
| Trade and Commerce Agency | 38 | 19 | 205 | 262 | 1:3.60 |
| Real Estate | 12 | 48 | 231 | 291 | 1:3.85 |
| Stephen P. Teale Data Center | 20 | 41 | 289 | 350 | 1:4.74 |
| Corporations | 20 | 55 | 349 | 424 | 1:4.65 |
| Alcoholic Beverage Control | 9 | 74 | 343 | 426 | 1:4.13 |
| Housing and Community Development | 14 | 74 | 417 | 505 | 1:4.74 |
| Source: LAO, May 1996 | ı | 1 | | | |

Budget and Fiscal Review Subcommittee No. 4 Span of Control Public Safety

| Departments | Managers | Supervisors | Rank & File | Total | Ratio |
|-----------------------------------|----------|-------------|-------------------|--------|--------|
| Youth and Adult Correction Agency | 8 | 1 | 4 | 13 | 1:0.44 |
| Youthful Offender Parole Board | 17 | 1 | 23 | 41 | 1:1.28 |
| Board of Corrections | 5 | 22 | 21 | 48 | 1:0.78 |
| Board of Prison Terms | 15 | 11 | 94 | 120 | 1:3.62 |
| Youth Authority | 82 | 744 | 4,824 | 5,650 | 1:5.84 |
| Corrections | 677 | 5,094 | 33,413 | 39,184 | 1:5.79 |
| Source: LAO, May 1996 | • | ı | 1 | 1 | |

Budget and Fiscal Review Subcommittee No. 4 Span of Control General Government

| Departments | Managers | Supervisors | Rank & | Total | Ratio |
|-------------------------------------|----------|-------------|-----------|-------|---------|
| | | | File | | |
| Commission on Status of Women | 1 | 1 | 4 | 6 | 1:2.00 |
| Board of Chiropractic Examiners | 1 | | 9 | 10 | 1:9.00 |
| Commission on State Mandates | 2 | 1 | 9 | 12 | 1:3.00 |
| Board of Osteopathic Examiners | 1 | 25 | 3 | 29 | 1:0.12 |
| California Arts Council | 2 | 2 | 33 | 37 | 1:8.25 |
| Public Employment Relations Board | 8 | 1 | 38 | 47 | 1:4.22 |
| Fair Political Practices Commission | 6 | 4 | 49 | 59 | 1:4.90 |
| Personnel Administration | 19 | 16 | 210 | 245 | 1:6.00 |
| Military | | 14 | 244 | 258 | 1:17.42 |
| Board of Control | 5 | 39 | 286 | 330 | 1:6.50 |
| Finance | 36 | 26 | 278 | 340 | 1:4.48 |
| Office of Emergency Services | 14 | 72 | 607 | 693 | 1:7.06 |
| CA Occupational Info. Coord. Comm. | 1 | | 1 | 2 | 1:1.00 |
| Source: LAO, May 1996 | I . | | I | | |

APPENDIX B

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APPENDIX C

MID-MANAGEMENT REDUCTION PLANS

(Data as of 5/1/94) Prepared by the Department of Personnel Administration

APPENDIX D

COPIES OF RELEVANT LEGISLATION

(a) Federal

Public Law 103-226, H.R. 3345

(b) Iowa

1992 Session, Chapter 1220, H.F. 2454

(c) Texas (proposed legislation)

1997 Regular Session, House Bill 1083 1997 Regular Session, Senate Bill 986

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- calling the California Research Bureau at 916-653-7843
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